

Report
of the
Examination of
Transit Mutual Insurance Corporation of Wisconsin
Appleton, Wisconsin
As of December 31, 1999

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August 17, 2000

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, WI 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

TRANSIT MUTUAL INSURANCE CORPORATION OF WISCONSIN
Appleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1995 as of December 31, 1994. The current examination covered the intervening period ending December 31, 1999, and included a review of such 2000 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Transit Mutual Insurance Corporation of Wisconsin (TMICOW) was organized in 1985 under ch. 611, Wis. Stat., as an assessable municipal mutual and commenced business on January 1, 1986. The company provides liability and uninsured motorist insurance to 19 member municipal transit systems in Wisconsin. The company reports all of its premium on the “auto liability” line of the annual statement. TMICOW is not authorized to write business in any other state.

All TMICOW policies are written on a calendar-year basis and provide an occurrence limit of \$6,250,000, of which the company retains the first \$1,250,000 of loss. The policies are issued directly to the member municipal transit systems, so there are no agents or commission expenses. Premium rates for each member system are calculated through a Premium Allocation Formula, which allocates the actuarially determined base premium necessary for all member systems. The current formula contains the following weightings:

Miles operated	65%
Accidents per 100,000 miles	15
Member's historical loss ratio	20

The Premium Allocation Formula also provides mechanisms for the members to participate in the profitability of the company through the refund of excess premiums (policyholder dividends) related to prior policy years either as a credit against current year premium or upon a member's withdrawal from TMICOW. A subaccount exists for each member, which reflects that member's share of the total excess premiums (surplus) for a minimum of the previous five-year period. The subaccounts are adjusted annually to reflect each member's share of the development of open accident years, refunds (usually as policyholder dividends credited to premiums), and current year results. Funds in the subaccounts become available for refund only after all losses in the relevant years are closed. Members can also recover funds from their subaccount upon withdrawal from TMICOW; however, several restrictions and penalties exist related to a minimum three-year membership period and proper notice of withdrawal.

There is a separate Premium Allocation Formula for miles operated outside the state of Wisconsin (Beloit and La Crosse), and for Racine's two trolleys. This premium is not eligible for the declared policyholder dividends.

As a service to its insureds and as a method of loss control, TMICOW provides a number of safety programs, including safety reviews and incentives. Examples of these programs include:

1. Ride Checks, which involve an unannounced ride-along audit of safety procedures and driving habits.
2. Roadeo, a contest where drivers compete for prizes and entry to the national competition. Only drivers with no preventable accidents in the prior year are eligible to compete.
3. The Driving Incentive Program, where the employees of the transit systems with the best safety records over the past year, one from each of three size divisions, receive cash awards.
4. A safety training scholarship that will pay up to 50% of the cost of safety-related training programs and expenses.

In addition to the programs described, the company maintains a library of training films, a safety manual, and distributes flyers on safety tips.

The following table is a summary of the net insurance premiums written by the company in 1999. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Commercial auto liability	<u>\$1,458,625</u>		<u>\$141,040</u>	<u>\$1,317,585</u>
Total All Lines	<u>\$1,458,625</u>	<u>\$</u>	<u>\$141,040</u>	<u>\$1,317,585</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of 19 members. Five or seven directors are elected annually to serve a three-year term. Officers are elected, on a rotational basis, to a three-year term at the board's annual meeting. The board members do not currently receive compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert Johnson Waukesha, Wisconsin	Transit Director Waukesha Metro Transit	2003
Dale Peters Eau Claire, Wisconsin	Director of Human Resources City of Eau Claire	2003
Michael Glasheen Racine, Wisconsin	Transit Planner City of Racine	2001
Charles Kamp Appleton, Wisconsin	General Manager Valley Transit	2001
Jack Shubat Ashland, Wisconsin	Transit Manager Bay Area Rural Transit	2001
Robert Spenle Beloit, Wisconsin	Manager City of Beloit	2002
Alan Meindel Fond du Lac, Wisconsin	Transit Manager Fond du Lac Area Transit	2003
Tim Collins Green Bay, Wisconsin	Transit Director Green Bay Transit System	2002
Michael Gensler Janesville, Wisconsin	Assistant Transit Director Janesville Transit	2003
Joseph McCarthy Kenosha, Wisconsin	Director Kenosha Transit	2002
Keith Carlson La Crosse, Wisconsin	Transit Manager Municipal Transit Utility	2001
Ann Gullickson Madison, Wisconsin	Acting Transit General Manager Madison Metro	2003
Anthony Sherer Manitowoc, Wisconsin	Transit Manager Manitowoc Transit	2001

Rich Grenfell Merrill, Wisconsin	Transit Administrator Merrill-Go-Round	2001
Beverlee Mallon Oshkosh, Wisconsin	Transit Coordinator Oshkosh Transit	2003
Dic O'Brien Rice Lake, Wisconsin	Manager City of Rice Lake	2002
Steve Billings Sheboygan, Wisconsin	Director of Parking & Transit Sheboygan Transit	2003
John Schlice Stevens Point, Wisconsin	Comptroller/Treasurer City of Stevens Point	2003
Greg Seubert Wausau, Wisconsin	Transit Director Wausau Area Transit	2002

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	Compensation
Robert Johnson	President	\$ 0
Dale Peters	Vice President	0
Michael Glasheen	Secretary/Treasurer	1,400*
Nancy Kreutzman	Executive Director	65,000

*Mr. Glasheen is compensated \$35 an hour for his work with the company's investments.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The board committees at the time of the examination are the executive, premium structure, and personnel (inactive) committees, which are comprised of directors in accordance with s. 611.56 (1) Wis. Stat. The committees at the time of the examination are listed below:

Executive Committee

Robert Johnson, Chair
Michael Glasheen
Dale Peters

Premium Structure Committee

Steve Billings, Chair
*Paul Larrousse
Anthony Scherer

Personnel Committee

Charles Kamp, Chair
Dale Peters
Joseph McCarthy
Keith Carlson
Robert Johnson

The company has the following advisory committees that are appointed by and report to the president. These committees consist of members who are not necessarily directors; nondirectors are identified by the city they represent:

Safety Committee

Joanne Cummings, Green Bay, Chair
Jim Krueger, La Crosse
Tim Groves, Madison
Ed Jenkins, Safety Director

Investment Committee

Michael Glasheen, Chair
Michael Gensler
Susan Kappell, Appleton

Rodeo Committee

Susan Kappell, Appleton, Chair
Russ Gmeiner, Appleton
Kim Kreutzman, Appleton
Joanne Cummings, Green Bay
Dave Gerondale, Green Bay
Timlin Groves, Madison
Anthony Scherer
Don Jans, Waukesha
Greg Seubert
Nancy Kreutzman
Ed Jenkins, Safety Director

- Paul Larrousse has resigned from the board and will be replaced on the committee at the November board of directors meeting.

IV. AFFILIATED COMPANIES

Section 611.23, Wis. Stat., provides municipal mutuals, such as TMICOW, an exemption from the holding company regulations. However, a closely related company does exist and is described below.

Wisconsin Municipal Transit Insurance Commission (WMTIC)

WMTIC was organized in 1982 to provide a mechanism for group purchasing of insurance for its member transit systems. For the period 1982 through 1985, WMTIC bought liability and property coverages for its members in the commercial market. Members of WMTIC then organized TMICOW to provide the “first layer” coverage on liability and uninsured motorist coverages for the members through a single policy issued to WMTIC; WMTIC obtained excess liability and property coverages through an independent broker. Beginning with the 1994 policy year, TMICOW started issuing policies directly to the municipal transit systems bypassing WMTIC. In addition, beginning in 1994, the transit systems purchased property and other coverages on an individual basis also bypassing WMTIC.

Since the only business purpose of WMTIC was to provide a mechanism for “pooling” certain insurance risks of its members and this function was no longer necessary, the commissioners (directors) of WMTIC voted to place the commission in abeyance, effective January 1, 1994. It is expected that WMTIC will remain in abeyance for the foreseeable future.

V. REINSURANCE

The company's reinsurance treaty in force at the time of the examination is summarized below. The contract contained proper insolvency provisions.

Ceding Contracts

1. Type: Excess of Loss Reinsurance
- Reinsurer: General Reinsurance Corporation
- Scope: All of the business written by the company
- Retention: \$1,250,000 per occurrence
- Coverage: \$5,000,000 per occurrence, plus a proportionate share of loss adjustment expenses.
- Premium: A flat charge of \$139,500 payable on or before February 1 of the contract year.

An additional flat premium of \$1,540 for two trolleys operated by the City of Racine, also payable on or before February 1 of the contract year.
- Profit commission: 10% of the final adjusted premium for any contract year, payable as an offset to future premiums, if there are no paid or reserved losses related to the contract year or the three subsequent contract years.
- Effective date: January 1, 1991, continuous.
- Termination: At any time by either party giving 120 days' notice by registered mail.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 1999, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted in the section of this report captioned "Reconciliation of Surplus per Examination."

Transit Mutual Insurance Corporation of Wisconsin
Assets
As of December 31, 1999

	Ledger Assets	Nonledger Assets	Nonadmitted Assets	Admitted Assets
Bond	\$7,655,253	\$	\$	\$7,655,253
Cash	198,157			198,157
Electronic data processing equipment	8,731			8,731
Interest, dividends, and real estate income due and accrued	140,114			140,114
Other assets nonadmitted:				
Equipment, furniture, and supplies		58	58	
Write-ins for other than invested assets				
Advance GAB	35,000			35,000
Prepaid Items	<u>2,853</u>	<u>978</u>	<u>978</u>	<u>2,853</u>
Total Assets	<u>\$8,040,108</u>	<u>\$1,036</u>	<u>\$1,036</u>	<u>\$8,040,108</u>

Transit Mutual Insurance Corporation of Wisconsin
Liabilities, Surplus, and Other Funds
As of December 31, 1999

Losses	\$1,485,460
Loss adjustment expenses	570,985
Other expenses (excluding taxes, licenses, and fees)	20,730
Taxes, licenses, and fees (excluding federal and foreign income taxes)	287
Drafts outstanding	<u>17,951</u>
Total Liabilities	2,095,413
 Gross paid in and contributed surplus	 100,000
Unassigned funds (surplus)	<u>5,844,695</u>
 Surplus as Regards Policyholders	 <u>5,944,695</u>
 Total Liabilities, Surplus, and Other Funds	 <u>\$8,040,108</u>

**Transit Mutual Insurance Corporation of Wisconsin
Summary of Operations
For the Year 1999**

Underwriting Income

Premiums earned	\$1,317,585
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Deductions

Losses incurred	410,611
Loss expenses incurred	292,290
Other underwriting expenses incurred	<u>372,564</u>

Total underwriting deductions	<u>1,075,465</u>
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Net underwriting gain or loss	242,120
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Investment Income

Net investment income earned	496,556
Net realized capital gains or losses	<u>(11,026)</u>
Net investment gain or loss	485,530

Other Income

Write-ins for miscellaneous income:	
Loss on disposal of computer	(1,584)
Miscellaneous income	<u>1,500</u>
Total other income	<u>(84)</u>

Net income before dividends to policyholders and before federal and foreign income taxes	727,566
Dividends to policyholders	<u>400,474</u>

Net Income	<u>\$ 327,092</u>
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Transit Mutual Insurance Corporation of Wisconsin
Cash Flow
As of December 31, 1999

Premiums collected net of reinsurance	\$1,317,585	
Loss and loss adjustment expenses paid (net of salvage or subrogation)	738,626	
Underwriting expenses paid	<u>369,052</u>	
Cash from underwriting		\$ 209,907
Investment income (net of investment expense)		466,653
Other income (expenses):		
Write-ins for miscellaneous items:		
Loss on sale of equipment	(1,584)	
Miscellaneous income	<u>1,500</u>	
Total other income		(84)
Deduct:		
Dividends to policyholders paid		<u>(400,474)</u>
Net cash from operations		\$ 276,002
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>4,382,401</u>	
Total investment proceeds		4,382,401
Cost of investments acquired (long-term only):		
Bonds	<u>5,344,038</u>	
Total investments acquired		<u>5,344,038</u>
Net cash from investments		(961,637)
Cash applied for financing and miscellaneous uses:		
Other applications	<u>752</u>	
Total		<u>752</u>
Net cash from financing and miscellaneous sources		<u>(752)</u>
Net change in cash and short-term investments		(686,387)
Reconciliation		
Cash and short-term investments,		
December 31, 1998		<u>884,544</u>
Cash and short-term investments,		
December 31, 1999		<u>\$ 198,157</u>

**Transit Mutual Insurance Corporation of Wisconsin
Compulsory and Security Surplus Calculation
December 31, 1999**

Assets		\$8,040,108	
Less liabilities		<u>2,095,413</u>	
Adjusted surplus			\$5,944,695
All other insurance	917,111		
Factor	<u>20%</u>		
Total		<u>183,422</u>	
Compulsory surplus			<u>183,422</u>
Compulsory surplus excess			<u>\$5,761,273</u>
Adjusted surplus			\$5,944,695
Security surplus:			
(140% of compulsory surplus, factor reduced			
1% for each \$33 million in premium			
written in excess of \$10 million with			
a minimum of 110%)			<u>256,791</u>
Security surplus excess			<u>\$5,687,904</u>

**Transit Mutual Insurance Corporation of Wisconsin
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 1999**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	1995	1996	1997	1998	1999
Surplus, beginning of year	\$4,603,554	\$5,016,216	\$5,085,870	\$5,396,309	\$5,617,402
Net income	474,657	(98,054)	309,990	220,536	327,092
Change in nonadmitted assets	(31)	1,229	449	557	201
Change in excess of statutory reserves over statement reserves	<u>(61,964)</u>	<u>166,479</u>	<u> </u>	<u> </u>	<u> </u>
Surplus, end of year	<u>\$5,016,216</u>	<u>\$5,085,870</u>	<u>\$5,396,309</u>	<u>\$5,617,402</u>	<u>\$5,944,695</u>

Growth of Transit Mutual Insurance Corporation of Wisconsin

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1995	\$6,463,911	\$1,447,695	\$5,016,216	\$474,657
1996	6,813,624	1,727,754	5,085,870	(98,054)
1997	7,291,514	1,895,205	5,396,309	309,990
1998	7,745,028	2,127,626	5,617,402	220,536
1999	8,040,108	2,095,413	5,944,695	327,092

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1995	\$1,393,742	\$1,176,032	\$1,176,032	43.9%	23.3%	67.2%
1996	1,331,535	1,110,710	1,110,710	96.7	24.1	120.8
1997	1,425,687	1,206,267	1,206,267	62.2	22.8	85.0
1998	1,435,934	1,286,434	1,286,434	66.6	25.8	92.4
1999	1,458,625	1,317,585	1,317,585	53.4	28.3	81.7

Admitted assets and surplus increased steadily over the five-year period, increasing by \$1,576,197 or 24.38% and \$928,479 or 18.51%, respectively, while liabilities have increased \$647,718 or 44.74% since the last examination. Gross premium written and net premium written have both increased every year, except in 1996 when they both decreased slightly. The company's loss ratios, expense ratios, and combined ratios were favorable except for 1996, when they had a high loss ratio and consequently a combined ratio over 100%. The company had a net income in every year except 1996.

Reconciliation of Surplus per Examination

There were no adjustments or reclassifications to surplus as a result of this examination.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the board of directors review and approve all investment transactions and document such in its minutes.

Action—Compliance

2. Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat., as regards the custody and control of its invested assets.

Action—Compliance

Summary of Current Examination Results

Management and Control

According to s. 611.56 (1), Wis. Stat., the board can delegate authority to make decisions on behalf of the company to committees consisting of three or more directors (board committees). Members of board committees must be directors. The statute also authorizes the formation of advisory committees. These committees do not have authority to make decisions on behalf of the company and can only recommend actions to the board of directors. Advisory committees can consist of nondirectors. A review of the committee listings indicated the company has both board and advisory committees. The examiners' review of board minutes indicated that the company is in compliance with applicable Wisconsin law.

Invested Assets

The examiners' review of the company's bond investments indicated that several long-term bonds had not been registered with the NAIC's Securities Valuation Office (SVO), as required by s. Ins 50.20 (1) (b), Wis. Adm. Code. The company compares its listing of bonds to listings provided by the SVO. In the cases where the security is not listed with the SVO, the company's procedure has been to continue to monitor the security to determine if another company filed it with the SVO.

The SVO has added a provisional exemption for certain securities rated by the Nationally Recognized Statistical Rating Organizations (NRSRO) effective January 1, 2000. The insurance companies must file all securities with the SVO except those securities that meet, and continue to meet the following conditions.

Bonds that are rated by at least two NRSROs with a rating not lower than the equivalent of an NAIC 2 Designation, or rated and monitored by only one NRSRO with a rating the equivalent of an NAIC 1 Designation.

Any security that at one time met the above conditions, but does not continue to meet such conditions, must be filed with the SVO within 120 days of such failure, as if the securities had never been provisionally exempt. It is suggested that the company continue monitoring the rating of its bonds, at least quarterly, and adopt procedures to report any that fail to meet the provisional exemption within 120 days as required by the SVO.

Disaster Recovery Plan

A proper disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer is lost, or the office building is destroyed, to name a few contingencies. The company has not developed a formal written Disaster Recovery Plan. It is recommended that the company develop a formal written Disaster Recovery Plan.

VIII. CONCLUSION

There were no adjustments as a result of this examination. There was one suggestion on procedures for registering bonds with the SVO, and a recommendation on the company developing a Disaster Recovery Plan.

The company has been profitable since the last examination in every year except 1997 when they had a combined ratio of 120.8% and a net loss of (\$98,054). Admitted assets and surplus increased over the five-year period by 24.38% and 18.51%, respectively.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Invested Assets—It is suggested that the company continue monitoring the rating of its bonds, at least quarterly, and adopt procedures to report any that fail to meet the provisional exemption within 120 days as required by the SVO.
2. Page 22 - Disaster Recovery Plan—It is recommended that the company develop a formal written Disaster Recovery Plan.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, state of Wisconsin, participated in the examination:

Name	Title
Sonja M. Dedrick	Insurance Financial Examiner

Respectfully submitted,

Kerri L. Miller
Examiner-in-Charge

Transit Mutual as of 12-31-99.doc